

D.P.U. 96-8-CC

Investigation by the Department of Public Utilities on its own motion into Western Massachusetts Electric Company's Conservation Charges and the various components of those charges, including but not limited to the Company's demand-side management monitoring and evaluation reports, program designs, and budget levels for 1996 and 1997.

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ORDER ON JOINT OFFER OF SETTLEMENT

I. INTRODUCTION

On September 5, 1995, Western Massachusetts Electric Company ("Company" or "WMECo") filed with the Department of Public Utilities ("Department") its 1994 Annual Report-Energy Savings Calculations Reference Guide ("1994 Reference Guide"). This report explains the Company's activities in the monitoring and evaluation ("M&E") of its demand-side management ("DSM") programs. The Company also filed with the Department its 1994 Report on Conservation and Load Management ("1994 Annual Report") and reports that inform the Company's estimated savings.¹ The Company uses the kilowatt and kilowatthour ("KWH") savings estimates for the calculation of lost base revenue ("LBR") and incentives to be recovered through its Conservation Charges ("CCs"). On November 1, 1995, WMECo filed an application for approval of its DSM programs and associated budget levels for 1996 and 1997 ("1996-1997 DSM Preapproval Filing").² This proceeding was docketed as D.P.U. 96-8-CC.

Pursuant to notice duly issued, a public hearing and procedural conference were held on

¹ In this Order, the Department moves into evidence (1) the 1994 Reference Guide; (2) the Company's 1994 Annual Report, including reports that inform the Company's estimated savings; (3) the Application of the Company for preapproval of 1996 and 1997 conservation and load management programs, filed on November 1, 1995; (4) all responses to Department information requests; (4) all reports, attachments, exhibits, subsequent amendments, supporting documents and revisions filed as of the date of this Order; and (5) the Offer of Settlement filed by the Parties on December 13, 1995.

² The DSM program designs and budgets were originally filed as a component of the Company's supply plan in WMECo's integrated resource planning ("IRP") proceeding, Western Massachusetts Electric Company, D.P.U. 95-100. The Department dismissed this portion of the Company's filing and directed the Company to file its DSM petition in D.P.U. 96-8-CC. Western Massachusetts Electric Company, D.P.U. 95-100, October 25, 1995 Letter Order to Western Massachusetts Electric Company at 2.

November 28, 1995 at the Department's offices in Boston. The Attorney General of the Commonwealth ("Attorney General") intervened pursuant to G.L. c. 12, § 11E. In addition, the Department granted the petitions for leave to intervene filed by the Massachusetts Division of Energy Resources ("DOER"), the Conservation Law Foundation ("CLF"), and the Massachusetts Energy Efficiency Council ("MEEC").

On December 13, 1995, WMECo, the Attorney General, DOER, CLF and MEEC (collectively "Parties") filed a Joint Motion for Approval of Offer of Settlement and an Offer of Settlement ("Settlement").

II. THE PROPOSED SETTLEMENT

By its terms, the Settlement is intended to (1) establish the Company's preapproved DSM program designs and budgets for calendar years 1996 and 1997; (2) establish the Company's final DSM annual and lifetime energy savings for 1992 and 1993 installations and establish savings on a preliminary basis for 1994 installations; and (3) set the CCs that will be effective from March 1, 1996 through February 28, 1998 (Settlement at 1; IR-DPU-3-1).

The Settlement provides for a total budget of \$12,436,000 for implementation of DSM programs in 1996, and a total budget of \$11,942,000 for implementation of DSM programs in 1997 (Settlement at 2).³ DSM programs and budget levels for years beyond 1997 will be addressed in the Company's next Integrated Resource Plan filing pursuant to 220 C.M.R. §§ 10.00 et seq., or in any other proceeding the Department may prescribe (id.). The Settlement also provides that the Parties intend to work together towards a settlement

³ This level of spending represents a decrease from the 1995 budget level of \$15.8 million. See Western Massachusetts Electric Company, D.P.U. 92-88-A (1994).

of the DSM programs and budgets for 1998, and to file such a settlement with the Department prior to December 31, 1997 (id.).

The DSM program designs to be implemented pursuant to the Offer of Settlement would be those programs described in the Company's 1996-1997 DSM Preapproval Filing (IR-DPU-3-1). The Settlement establishes DSM program designs for the Company's Residential programs and for its Commercial and Industrial ("C/I") program for 1996 and 1997 (1996-1997 DSM Preapproval Filing). In 1996 and 1997, WMECo would offer one umbrella C/I program to its customers which would provide a broad range of services, including energy use assessments, engineering studies and services, and financial assistance to customers for the installation of various energy efficiency measures (id. at 4-5). These services would be provided to WMECo's customers through three specific delivery mechanisms: (1) Express Service; (2) Custom Service; and (3) New Construction Service (id. at 5).⁴ The Company would offer seven DSM programs to its residential customers in 1996 and 1997: (1) Electric Heat Weatherization (Blower Door Core Program); (2) Electric Heat Weatherization - Insulation Supplemental Program; (3) Electric Heat - Energy Efficient Water Heating Supplemental Program; (4) Low-Income Program; (5) Energy Value Water Heating; (6) Catalog with Products for a Healthy Home; and (7) New Construction/Market Transformation Program (id. at 14-24).⁵ The Settlement provides for an overall shift toward a focus on market-driven DSM consistent

⁴ For a detailed discussion of the three delivery mechanisms, see 1996-1997 DSM Preapproval Filing at 5-12.

⁵ For a detailed description of each of these programs and a discussion of any changes made from the Company's 1995 DSM programs, see 1996-1997 DSM Preapproval Filing at 12-24.

with increased competition in the electric industry

(IR-DPU-3-1; 1996-1997 DSM Preapproval Filing at 2).

The Parties have agreed to final total annual energy savings for the Company's DSM programs of 34,638 megawatthours ("MWH") from 1992 installations, 42,167 MWH from 1993 installations, and preliminary annual energy savings of 32,154 MWH from 1994 installations (Settlement, Att. B at 1).⁶ The Settlement indicates that final levels of energy savings for each of the Company's DSM programs for 1992 and 1993 installations are as shown in the Company's 1994 Annual Report, with the exception of final energy savings levels for the Single Family Electric Heat program, which are shown in the Company's 1994 Reference Guide (id. at 3).

In accordance with the terms of the Settlement, the Company would continue to collect CCs in 1996 and 1997 that would recover all DSM costs, including (1) direct program expenditures for 1996 and 1997, (2) any interest on unamortized balances, (3) LBR attributable to DSM programs, (4) the financial incentive earned by the Company, and (5) any past over- or under-recoveries of approved expenses (id. at 4). The Settlement proposes a single CC for WMECo's residential rate classes, R-1 and R-3 (id.).⁷ For a complete list of proposed CCs for all of the Company's rate classes for 1996 and 1997, see Table 2, attached.

⁶ For total lifetime energy savings and annual and lifetime energy savings for each program, please refer to Table 1, attached.

⁷ The Company states that a single rate has the following important advantages over separate rates for the rate classes within this customer sector: (1) a decrease from present levels of the CC that customers in both residential classes currently pay; (2) less volatility than has been present in the rates for the R-1 and R-3 rate classes in the past; and (3) greater consistency with the current emphasis on market transformation and with the evolving nature of DSM which make it increasingly more difficult to distinguish which rate classes within the residential sector benefit from specific expenditures (December 13, 1995 WMECo cover letter to the Settlement).

The Settlement states that the CCs proposed in the Settlement reflect the three-year rolling period method for calculating LBR ordered by the Department in Western Massachusetts Electric Company, D.P.U. 95-8-CC (Phase II)-A (1995) (id. at 4). The Parties recognize that adjustments may be made to the CCs effective for the period March 1997 through February 1998 (id. at 4-5).⁸

According to the Settlement, the Company will receive a financial incentive, recovered through the CC, that will be calculated as a percentage return on all DSM expenditures made during 1996 and 1997, or as a percentage return on the total planned DSM budget for 1996 and 1997, in the event that the Company's DSM expenditures for either year exceed its total planned budget for that year (id. at 8). The incentives will be calculated as a function of the savings ratio for 1996 and 1997 (id.).⁹ For both calendar years 1996 and 1997, the Company's savings ratio must be at or above 65 percent before the Company may collect any incentive (id. at 7-8).

Finally, the Settlement provides that, other than as expressly stated, the Settlement (1) establishes no principles or precedents and shall not be deemed to foreclose any party from making any contention in any future proceeding or investigation, and (2) shall not in any respect constitute a determination by the Department as to the merits of any issue in any subsequent proceeding (id. at 9). The Parties acknowledge that any significant changes to program

⁸ The CCs for this period may change pursuant to filing by the Company of its 1995 annual report on Conservation and Load Management, which will show final energy savings for 1994 and preliminary energy savings for 1995. In addition, the Settlement provides for adjusting the proposed CCs for 1997 to reflect changes regarding program costs and recoveries in 1996 (Settlement at 4,5).

⁹ The savings ratio is the ratio of installed savings (i.e., after-the-fact measured savings) to planned savings (Settlement at 6).

expenditures or other matters covered by the Settlement that arise during the course of DSM implementation shall be subject to Department approval (id.).

III. ANALYSIS AND FINDINGS

In assessing the reasonableness of an offer of settlement, the Department must review the entire record as presented in a company's filing and other record evidence to ensure that the settlement is consistent with Department precedent and public policy. See Commonwealth Gas Company, D.P.U. 94-128 (1994); Western Massachusetts Electric Company, D.P.U. 94-12, at 4 (1994); Barnstable Water Company, D.P.U. 91-189 (1992). The Department has evaluated the proposed impact of the Settlement in light of the information presented regarding program design, cost recovery, cost effectiveness, and monitoring and evaluation.

The Settlement in the instant proceeding represents agreement among a broad range of interests including electric company, economic development, consumer, and environmental interests.

In Electric Industry Restructuring, D.P.U. 95-30 at 44 (1995), the Department stated that electric companies should continue to implement DSM programs in order to ensure that DSM has a meaningful opportunity to compete in a restructured industry. The Department believes that the transition from electric company-sponsored DSM programs to programs that compete effectively in an open market will be best accomplished through a gradual shift rather than through an abrupt cessation of electric company-sponsored DSM. The Department finds that the proposed Settlement begins to move in such a direction, both in its budget levels and program designs.

The Department finds that the Company's programs are cost-effective as designed and that the Company's continued commitment to conservation as represented by the proposed budget

levels is appropriate. The Department also finds that the shift embodied in this Settlement, towards an emphasis on market-driven DSM programs, is appropriate in light of the current move towards increased competition in the electric power industry. Further, the Department finds that a single CC for the Company's R-1 and R-3 rate classes is appropriate given the difficulty of distinguishing between residential rate classes in assigning program costs and benefits in market-driven programs.

Finally, while the proposed Settlement moves in the right direction, the Department encourages the Company to note the disparity of rates among customer classes and to recognize that in a more competitive era, large disparities in CCs may not be sustainable. The Department notes that planning for 1998 DSM programs may be premature before developing a clearer understanding of how restructuring will affect the Company's operations in 1998.

Based on this review, the Department finds that the provisions of the Settlement are consistent with Department policy encouraging companies to prepare for a more competitive era, and with those terms which would have been approved by the Department in the absence of a settlement.

In accordance with the terms of the Settlement, our acceptance does not constitute a determination or finding on the merits of any allegations, contentions, or arguments made in this investigation and should not be interpreted as establishing precedent for future filings by the Company or the Parties.

IV. ORDER

Accordingly, after due consideration, it is

ORDERED: That the Joint Motion for Approval of Offer of Settlement, filed with the Department on December 13, 1995, and jointly sponsored by the Western Massachusetts Electric Company, the Attorney General, the Division of Energy Resources, the Conservation Law Foundation, and the Massachusetts Energy Efficiency Council, Inc., be and hereby is approved.

By Order of the Department,

John B. Howe, Chairman

Mary Clark Webster, Commissioner

Janet Gail Besser, Commissioner

Appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part.

Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. (Sec. 5, Chapter 25, G.L. Ter. Ed., as most recently amended by Chapter 485 of the Acts of 1971).